

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Jackson County, Kentucky, for the year ended December 31, 2003.

We engaged Ross & Company, PLLC to perform the audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Jackson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JACKSON COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

Ross & Company, PLLC has completed the Jackson County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees increased by \$7,131 from the prior year, resulting in excess fees of \$8,257 as of December 31, 2003. Revenues decreased by \$10,086 from the prior year and expenditures increased by \$17,217.

Report Comments:

- The Sheriff Has A Lack of Adequate Segregation Of Duties
- The Sheriff Should Not Commingle Funds Between His Accounts
- The Sheriff Should Prepare A Disbursements Ledger In Accordance With The Uniform System Of Accounts
- The Sheriff Should Publish His Annual Statement
- The Fiscal Court Should Set Maximum Salaries For Deputies
- The Sheriff Should Present A Final Settlement To The Fiscal Court
- The Sheriff Should Invest Money In Interest Bearing Accounts
- The Sheriff Should Pay Excess Fees Due The County

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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The Honorable Tommy Slone, Jackson County Judge/Executive
The Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Jackson County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Tommy Slone, Jackson County Judge/Executive
The Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Has A Lack Of Adequate Segregation Of Duties
- The Sheriff Should Not Commingle Funds Between His Accounts
- The Sheriff Should Prepare A Disbursements Ledger In Accordance With The Uniform System Of Accounts
- The Sheriff Should Publish His Annual Statement
- The Fiscal Court Should Set Maximum Salaries For Deputies
- The Sheriff Should Present A Final Settlement To The Fiscal Court
- The Sheriff Should Invest Money In Interest Bearing Accounts
- The Sheriff Should Pay Excess Fees Due The County

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Jackson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
January 31, 2005

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

Federal Grants		\$	63,451
Federal Payments - Forest Patrol			7,025
State Grants			22,320
State - Kentucky Law Enforcement Foundation Program Fund			14,074
State Fees For Services:			
Finance and Administration Cabinet	\$	1,286	
Cabinet For Human Resources		<u>251</u>	1,537
Circuit Court Clerk:			
Sheriff Security Service	\$	8,011	
Fines and Fees Collected		<u>6,211</u>	14,222
Fiscal Court			150
County Clerk - Delinquent Taxes			1,513
Commission On Taxes Collected			92,367
Fees Collected For Services:			
Auto Inspections	\$	2,815	
Accident and Police Reports		105	
Serving Papers		10,230	
Carrying Concealed Deadly Weapon Permits		<u>4,410</u>	17,560
Other:			
Penalties On Tax Collections	\$	14,086	
Miscellaneous		<u>8,906</u>	<u>22,992</u>
Total Revenues		\$	257,211

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2003
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	115,802
Employee Benefits-		
Employer's Share Social Security	\$	2,339
Employer's Share Retirement		5,779
		8,118
Materials and Supplies-		
Office Materials and Supplies	\$	3,364
Uniforms		13,414
		16,778
Auto Expense-		
Gasoline	\$	26,982
Maintenance and Repairs		13,580
		40,562
Other Charges-		
Bank Service Charges	\$	640
Returned Checks		263
Postage		414
Carrying Concealed Deadly Weapon Permits		3,210
Miscellaneous		1,348
		5,875
Capital Outlay-		
Vehicles		6,323
Total Expenditures	\$	193,458
Less: 2004 Salaries Paid From 2003 Fee Account		8,257
Total Allowable Expenditures	\$	185,201
Net Revenues	\$	72,010
Less: Statutory Maximum		63,753
Balance Due Fiscal Court at Completion of Audit (Note 5)	\$	8,257

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. COPS Grant

The Jackson County Sheriff received a COPS Grant during Calendar Year 2003. The beginning balance as of January 1, 2003 was \$3,922. Receipts for the year were \$59,529. All funds were expended during the year.

Note 5. Excess Fees

The Sheriff owes \$8,257 in excess fees to the Jackson County Fiscal Court for 2003. On January 25, 2004, the Sheriff paid the Jackson County Fiscal Court \$8,257 as payment for the January 30, 2004 payroll. This payroll should have been paid from calendar year 2004 funds.

COMMENTS AND RECOMMENDATIONS

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Not Commingle Funds Between His Accounts

The Sheriff paid a December payroll of \$4,447.91 from the 2003 Tax account. He then paid a January 2004 payroll from the 2003 Fee for the same amount. The Sheriff then refunded the 2004 Fee account through a loan that will probably be charged to the 2004 Fee account that was deposited into the 2003 Tax account. The Sheriff should avoid commingling funds between his different accounts.

Sheriff's Response:

None

The Sheriff Should Prepare A Disbursements Ledger In Accordance With The Uniform System Of Accounts

The Sheriff did not have a disbursements ledger. According to KRS 68.210 "the administration of the county uniform budget system shall be under the system of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials. Subsequent to every regular and extraordinary session of the general assembly he shall review the county uniform budget system to determine if it is consistent with state law and generally accepted accounting practices. If he finds the system to be inconsistent with state law or to contain obsolete accounting practices, he shall revise it accordingly." We recommend the Sheriff comply with KRS 68.210 by maintaining a disbursements ledger in accordance with the Uniform System of Accounts.

Sheriff's Response:

None

The Sheriff Should Publish His Annual Statement

The Sheriff's Annual Financial Statement was not published for calendar year 2003. KRS 424.220 (6) states that the Sheriff shall within sixty days after the close of the Sheriff's fiscal year, cause the financial statement to be published in full in a newspaper qualified under KRS 424.120 to publish advertisements for the county. Promptly after publication is made, the Sheriff shall file a written or printed copy of the advertisement with proof of publication, in the office of the county clerk of the county and with the office of the Auditor of Public Accounts. Promptly after publication is made, the Sheriff shall also file one (1) copy of the financial statement with the Kentucky Department For Local Government. We recommend the Sheriff comply with KRS 424.220 by publishing his financial statement.

Sheriff's Response:

None

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Fiscal Court Should Set The Maximum Amount For Deputies And Assistants

The fiscal court did not set the maximum amount the Sheriff may expend for deputies and assistants during calendar year 2003. KRS 64.530 requires the fiscal court to fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants. We recommend the Fiscal Court set the maximum amount the Sheriff may expend for all personnel paid from the Sheriff's Fee Account.

Sheriff's Response:

None

The Sheriff Should Present A Final Settlement To The Fiscal Court

KRS 134.310(5) states

In counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his final settlement

- (a) A complete statement of all funds received by his office for official services, showing separately the total income received by his office for services rendered, exclusive of his commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and
- (b) A complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.

We recommend the Sheriff present a final settlement to the fiscal court.

Sheriff's Response:

None

The Sheriff Should Pay Excess Fees Due The County

The Sheriff owes the county \$8,257 in excess fees. The Sheriff paid the fiscal court \$8,257 on January 25, 2004 for a January 2004 payroll. We recommend the Sheriff pay expenditures from the appropriate fee account.

Sheriff's Response:

None

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Invest Money In Interest Bearing Accounts

The Sheriff deposited fee account funds into a non-interest bearing account. KRS 66.480(4) states that "sheriffs . . . may, and at the direction of the fiscal court shall, invest and reinvest money subject to their control and jurisdiction . . ." Since the Sheriff had excess fees for calendar year 2002, interest earned on the fee account would have increased the amount of excess fees due the county. We recommend the Sheriff deposit fee account funds into interest bearing accounts in the future.

Sheriff's Response:

None

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff Has A Lack Of Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and receipts and disbursement ledgers.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should approve all disbursements and sign all checks.

Sheriff's Response:

None

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

PRIOR YEAR:

- The Sheriff Should Submit An Annual Settlement Of Excess Fees With The County
- The Sheriff Should Invest Money In Interest Bearing Accounts
- The Sheriff Should Publish His Annual Statement
- The Sheriff Has A Lack Of Adequate Segregation Of Duties

The above comments were not corrected and are repeated.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
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The Honorable Tommy Slone, Jackson County Judge/Executive
The Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Jackson County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated January 31, 2005. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Not Commingle Funds Between His Accounts
- The Sheriff Should Prepare A Disbursements Ledger In Accordance With The Uniform System Of Accounts
- The Sheriff Should Publish His Annual Statement
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- The Sheriff Should Present A Final Settlement To The Fiscal Court
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- The Sheriff Should Pay Excess Fees Due The County

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

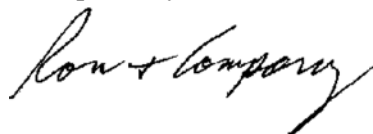
In planning and performing our audit, we considered the Jackson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff Has A Lack Of Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Ross & Company, PLLC

Audit fieldwork completed -
January 31, 2005

